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Approved For Release 2003/01/30 : CIA-RDP80B01676R004200140019-3

9 March 1957

MEMORANDUM FOR: Director of Central Intelligence
THROUGH: Deputy Director/Intelligence
SUBJECT: Report to the President by the President's
Citizen Advisers on the Mutual Security
Program

1. If an acknowledgment of the subject Report is desired, it is recommended that the attached letter be forwarded to Mr. Fairless.

2. As you are probably aware, this Report has produced mixed reactions in the Press. Moreover, we have been informed that various portions have received unfavorable comment at working levels in Executive Branch agencies concerned with Mutual Security and Foreign Assistance matters. It is also our understanding that meetings are being held among senior representatives of the interested agencies for the purpose of establishing a joint position on the Fairless Report.

3. Some of the aspects of the Report which have been questioned or criticized are as follows:

(a) The Report is essentially negative as far as economic development assistance to underdeveloped countries is concerned. On page 2, the Report indicates that "Long-range success in forestalling Communist aggression lies in demonstrating that a free system is far superior to an authoritarian one in providing better living conditions and the individual opportunities which people so deeply desire. This demands continuing emphasis on economic development." On page 18, there is a comment to the effect that funds available for long-range economic development assistance should be continued over a period of years. For the most part, however, the Report emphasizes not economic development, but rather military support, and the methods by which our contributions to military support might be reduced. The Report does not

Reference Report sent as the report. You may however wish to make some comment to Mr. Fairless.
JL

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point out that only a small portion of total collective security expenditures has been used for long-run development assistance and that such assistance in the post-Korean period has been provided to a very limited number of underdeveloped countries. Nor does the Report recommend an increased level of development assistance or a wider distribution of such aid.

(b) On page 11, the Report indicates "In foreign assistance programs a higher priority should be given to those countries which have joined in the collective security system." No one questions this in connection with military assistance, but in connection with economic development assistance many observers have argued quite persuasively that U.S. interests would best be served by severing the link between military pacts and development assistance, and, where appropriate, offering economic development assistance to countries which can use it effectively whether such countries are allied to us or neutral. In this connection, the Communists have made quite a propaganda point in claiming that, unlike U.S. assistance, their economic assistance is granted "with no strings attached."

(c) In terms of U.S. capabilities, the Report indicates that the U.S. ". . . can afford the essential programs of foreign assistance which our national interest requires." Generally the Report takes the position that the U.S. should maintain or reduce its present level of collective security expenditures. However, it provides no real examination of what the level of these outlays should be either in terms of total expenditures or in terms of economic assistance.

(d) The Report quite properly indicates the importance of private investment abroad in promoting U.S. foreign policy interests. It does not, however, really attempt to measure the magnitude of private capital investment which may be forthcoming in specific underdeveloped areas of interest to the U.S. Many observers consider that in major portions of Asia and Africa private investment is not likely to play a significant role for some time to come.

(e) On the subject of grants versus loans, and of the appropriate form of loans, the Report is somewhat vague and inconsistent. It indicates

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that grants to provide capital for development purposes should be severely limited (page 11). It also opposes loans by the U.S. repayable in inconvertible currencies or loans made in circumstances in which there is grave doubt as to the ability of the borrower to repay. Since this would limit virtually all development assistance to that which can be financed by "bankable" loans and since the International Bank and the Export-Import Bank are now making virtually all such loans which can be serviced, it would seem that this might result in a reduction rather than an expansion of economic assistance. The Report does recognize that "there will be cases in which it is in the interest of the United States to make dollar loans on more liberal terms than those of the established public banks with respect to interest rates and periods of repayment." However, the types and magnitude of such loans are not indicated in the Report.

(f) The proposals that all forms of military assistance be included in the Defense budget (and presumably administered by the Defense Department), and that administration of economic assistance be integrated with existing economic activities within the State Department have been made on a number of previous occasions. Thus far, the Executive Branch has taken a position against these proposals.

(g) The figure of \$7.9 billion used in the Report as the total cost of our collective security programs abroad during FY 1956 (page 5 and Part 3, page 27 ff.) is a larger figure than is generally used to represent foreign assistance. The most important items normally excluded from total costs of such programs are expenditures abroad by U.S. military forces and civilian agencies.

4. The most important positive contributions of the Report are as follows:

(a) The recommendation that the Mutual Security Program be continued.

(b) The suggestion that Mutual Security appropriations be made biennially rather than annually.

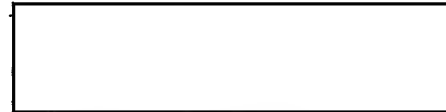
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(c) The strong plea for expansion of international trade.

5. The report of the President's International Development Advisory Board, headed by Eric Johnston, dealing with economic aid to underdeveloped countries, has just been published. We have not yet had an opportunity to examine this report, but based on Press comments thereon it would seem that the Johnston and Fairless Reports are in some measure contradictory. Mr. Johnston is quoted as indicating that his report's recommendations and those of the Fairless Report are to be coordinated by Mr. Randall.



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OTTO E. GUTHE
Assistant Director
Research and Reports

Attachments:

1. Letter to Mr. Fairless
2. Two newspaper clippings

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CENTRAL INTELLIGENCE AGENCY

WASHINGTON 25, D. C.

OFFICE OF THE DIRECTOR

Mr. Benjamin F. Fairless
Coordinator, The President's Citizen Advisers
on the Mutual Security Program
Washington 25, D. C.

Dear Mr. Fairless:

Thank you for sending me a copy of your "Report to the President by the President's Citizen Advisers on the Mutual Security Program." I read this Report with a good deal of interest.

In following Sino-Soviet economic penetration activities in Free World underdeveloped areas during the last two years, we have become increasingly aware of the need for re-examination of our own economic policies toward other countries in the Free World. I am sure that your Report will make a useful contribution toward this end.

I like particularly that portion of your Report which indicates that the long-run success of collective security ". . . lies in demonstrating that a free system is far superior to an authoritarian one in providing better living conditions and the individual opportunities which people so deeply desire" and that this "demands continuing emphasis on economic development." This expression by you and your colleagues should help to demonstrate to our friends abroad the wide support in the United States for cooperation with foreign countries, and our continued interest in the economic development of the less-developed Free World areas.

Sincerely,

Allen W. Dulles
Director

THE WASHINGTON POST
Friday, March 8, 1957

Blowing Away the Fog

Another report is in on "foreign aid." The proposal of the International Development Advisory Board is a persuasively stated, if somewhat undetailed plan for long-range American economic assistance to the underdeveloped third of the world toward which this country long has had a surfeit of good intentions with little actual help.

The report ought to be a basic text in the formulation of the Administration's long-awaited aid program. It comes from a group, headed by Eric Johnston, that includes a dozen of the country's top leaders in business, education and labor. The International Development Advisory Board was organized in 1950, by direction of Congress, to promote the objectives of President Truman's Point Four program of technical assistance to underdeveloped countries. Seven years of experience have brought the Board to the unanimous conclusion that technical advice and American private investment in these newly awakened countries, although both are vital, are not equal to the challenge with which these nations confront the free world.

The Board deliberately has avoided putting a price tag on the new program of economic development assistance which it proposes. Probable maximums are fairly well agreed upon, however, by others who have studied the problem. An initial annual outlay of perhaps \$1 billion for long-range development in the underdeveloped countries is often mentioned as a general "order of magnitude" figure. This would, of course, be a relatively modest increase in foreign-aid spending, which is now largely military, and it would represent an almost insignificant portion of this country's own annual rate of capital growth. By failing to propose even a general level of development aid, the Board risks the unwarranted inference that the burden would be prohibitively high. It might well have been more explicit.

The Board also avoids some of the necessary detailing of how such aid is to be carried out—a task that someone will have to undertake. It ignores, for example, the question of how most effectively to use American agricultural surpluses, although Mr. Johnston explains that this in no sense implies an objection to the sale of these commodities for foreign currencies, earmarked for economic development.

Despite these shortcomings, however, the Board's report helps greatly to clear away the fog (in which the Fairless Committee seems to have got lost) that obscures the fundamental facts of life on this country's relationships to the underdeveloped areas. These facts are that some two thirds of the free world's people are using newly won political freedom to demand relief from the poverty they have for centuries accepted as permanent. This demand is sharpened by a growing realization that both Communist and non-Communist countries can offer them "an alternative to traditional poverty."

The Soviet Union is, accordingly, exploiting emerging nationalistic aspirations to further its plan of world domination. Not only to counter Russia's moves, but also because this country has itself a great stake in winning the friendship, and ultimately the trade and political cooperation of these vast economically depressed areas, the United States must do more to help in their development. Doing this effectively will require a long-range commitment, a variety of loan and grant programs and a clear separation of development aid from the tactics of military deterrence and containment. The Johnston report sets forth this basic philosophy with incisiveness and conviction. It contributes toward the creation of a constructive climate for the formulation of a detailed, workable foreign economic development program.

THE NEW YORK TIMES
Wednesday, March 6, 1957

AID STUDY BACKS OUTLAYS ABROAD AT PRESENT PACE

President's Advisory Group
Doubts the Program Can
Come to an End Soon

*Text of major findings in the
report are on Pages 16-17.*

By EDWIN L. DALE Jr.
Special to The New York Times.

WASHINGTON, March 5—A special advisory committee reported to President Eisenhower today that the nation's foreign aid and collective security programs "are proving their worth, and we should hold firmly to them."

The committee of seven private citizens was appointed last year to survey the whole subject of foreign aid.

Their report today said outlays abroad "need not exceed" present levels. Such levels, they said, "should under present conditions be adequate to provide a reasonable expectation of achievement of the goals of United States foreign policy without undue strain on the domestic economy."

The group expressed "hope" that foreign aid spending might decline in time, but added:

"The United States must resolve to stay the course and must abandon the false hope that collective security costs are temporary."

Fifty Recommendations

The report put the current annual level of foreign assistance at \$8,000,000,000. This included not only the regular military and economic aid program but also farm surplus sales for local currencies, spending of dollars by American military forces abroad, and gross new loans by the Export-Import Bank.

The report contained about fifty recommendations for changes or shifts in emphasis in the program. But few were specific and some appeared contradictory. There was no detailed analysis either of individual country's programs or of the various categories of foreign aid.

But the major conclusion was stated without qualification: that both military and economic aid programs had successfully countered Soviet expansion and should be continued.

Apparent Contradictions

The committee was headed by Benjamin F. Fairless, former chairman of the board of the United States Steel Corporation. Some of its members undertook a world tour in which they visited many of the countries now being aided.

The major new specific recommendation in the report was that each Congress, rather than each session of Congress, vote a foreign aid program. This would mean that each foreign aid bill would cover two years, making possible "more efficient planning and utilization of funds."

The report was equivocal on perhaps the most controversial question about foreign aid: whether the United States should undertake an enlarged program of aid to the underdeveloped countries. Most of the largest

Continued on Page 18, Column 5

REPORT ASKS U. S. CONTINUE ITS AID

Continued From Page 1

of these are uncommitted in the "cold war."

The report in several places favored aid for economic development and even said that economic aid generally should be concentrated "more upon long-range development." But it said that "higher priority should be given to those countries which have joined in the collective security program."

The report also was unclear on the question of grants versus loans in foreign aid. It showed that present foreign aid spending is 96 per cent in grants—largely because present aid is overwhelmingly military and military aid has customarily been on a grant basis.

Yet the report, while urging continuation of the present general program, said that assistance in the form of grants should be given only in "exceptional" cases.

The report also strongly emphasized the role of private capital and private commercial trade investment in spurring economic advance abroad.

It said that "to the extent private capital can proceed, the burden on the American taxpayer can be reduced without impairment of that economic development of the free world which is so essential to the realization of American aspirations."

Cites 'Crucial Areas'

But then it admitted that in certain "crucial areas," such as Korea, Taiwan, Vietnam, Pakistan and Turkey, "general encouragement of private investment and trade will not suffice." These five countries and two or three others in the same situation, are receiving nearly 80 per cent of the economic aid now being extended.

The report included in the total

of foreign assistance nearly \$1,000,000,000 in the form of farm surpluses sold for foreign currencies. But it advocated that this program be stopped.

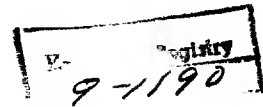
The committee said "there is no doubt that the uniquely productive United States economy can afford the essential programs of foreign assistance which our national interest requires."

But the group noted that other security spending—chiefly straight defense spending—had been rising.

The "aim" of the study, the group said, was to "formulate recommendations which would avoid increase in the costs and provide a basis for gradual reduction in outlay."

The unanimous report was signed by Mr. Fairless; Colgate W. Darden Jr., president of the University of Virginia; John L. Lewis, president of the United Mine Workers; Whitelaw Reid, chairman of the board of The New York Herald Tribune; Jesse W. Tapp, chairman of the Bank of America; Richard R. Deupree, chairman of Procter & Gamble; and Gen. Walter Bedell Smith, vice chairman of American Machine & Foundry Company and former Under Secretary of State.

THE WHITE HOUSE
WASHINGTON



March 4, 1957

For [unclear]

Dear Allen:

The Fairless report became available this afternoon, coincident with Ben's press conference, and it is released to the press for Wednesday morning.

I am happy to send you a copy herewith.

Personally, I think it is an admirable job, having in mind all the facts and circumstances.

You will note that it is unanimous, which is in itself a superb achievement.

Ben possesses to an extraordinary degree the gift of getting consensus from disparate groups, and that was one of the reasons why I urged his appointment.

Sincerely yours,

Clarence B. Randall
Special Assistant to the President

The Honorable Allen W. Dulles
Director, Central Intelligence Agency
Washington, D. C.

Enclosure.

DCI stated "no reply necessary".

JSE/ekt 5 Apr 57